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April 2025 Insights & Strategies: Liberation Day Tariff Package Hits Hard Around the World

Macro Highlights for March

- The Canadian economy was stronger than expected through 4Q24 and into the start of 1Q25. January was helped by the GST/HST tax holiday and advanced ordering from U.S. manufacturers front-running tariffs that will likely lead to 1Q25 GDP growth in the 1.8% range. However, uncertainty driven by U.S. tariffs and overall long-term trade expectations will likely lead to growth slowing through the remainder of 2025. Despite a slight bump up to 2.6% CPI inflation in February, we remain within the 1-3% comfort band.

- In the U.S., the current tariff plan would put the average effective tariff rate at over 20%, and if maintained for an extended period, could increase the likelihood of a recession, but for now our U.S. economics team is currently expecting 1.8% growth for 2025. A lot will depend on how permanent these tariffs are, and what kind of rate relief comes from negotiations in the coming days and weeks. The rule of thumb is that a 10% increase in the effective tariff rate would lead to a 1% decrease in the GDP growth rate and 1% increase in the inflation rate. Inflation had been slowly decreasing towards the Fed's 2% target, although the risk if now towards a re-acceleration upwards.

- The Bank of Canada (BoC) reduced its policy rate to 2.75% on March 12, in large part due to the uncertainty and risk of tariffs on the economy. The Federal Reserve (Fed) held its policy rate at 4.50%, as expected, in its March 19 announcement.

Financial Markets in March

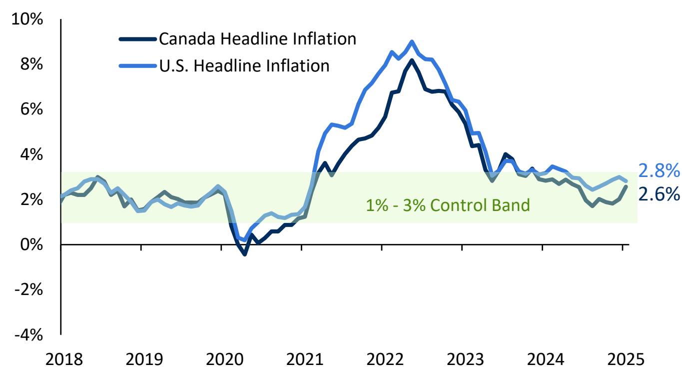
- In March, the TSX Composite, Canada's main stock market index, recorded a -1.9% price return and -1.5% total return. Meanwhile, the U.S. large-cap benchmark, the S&P 500, saw a decline of 5.8% in price return and 5.6% in total return, all in local currency. YTD total returns to March 31, were +1.5% for the TSX Composite and -4.3% for the S&P 500.
- U.S. markets have been particularly hard hit by the tariff uncertainty so far this year, with a further decline the day following the April 2 announcement, of 4.8% on the S&P 500, while the TSX Composite was down 3.8% on the same day. While we have been expecting earnings growth to support equity markets in 2025, towards a 6,375 target on the S&P 500 and 26,300 target on the TSX Composite, the prolonged application of tariffs as laid out on April 2 could impact those assumptions.
- Top Canadian sectors in 1Q25 were Materials (with half the sector exposed to gold, which generally benefits from uncertainty), Utilities (as a defensive play with minimal exposure to tariffs), and Energy. The weakest sectors included Information Technology (with cooling enthusiasm around A.I. and rotation to more defensive sectors), Industrials (with significantly exposure to tariffs from transportation/ intermodal, equipment supplies and distribution, automotive, and manufacturing, although front-loading of orders in 1Q25 is expected to boost immediate sales and earnings), and Real Estate (which could be under pressure from slower economic growth and potentially declining population).

Upcoming

- The Bank of Canada's April Monetary Policy report on April 16 is expected to provide additional clarity on economic impacts of tariffs and retaliatory tariffs, and the potential path for policy rates. We are expecting 25 bp rate cuts at the next two meetings on April 16 and June 4, bringing the BoC policy rate down to 2.25%.
- Our U.S. team expects three rate cuts from the Federal Reserve in 2025, to end the year at 3.75%. The Fed's decisions will be complicated by slowing growth and a likely rise in the unemployment rate over the intermediate term, which should lead to more or faster rate cuts. However, the expected boost in inflation due to the spiked tariff rates, which may appear first in the economy, should result in the Fed holding rates steady at least for the next meeting.

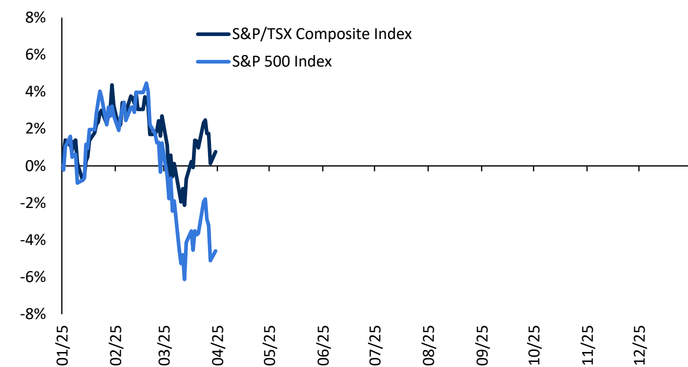
- As we soon start 1Q25 earnings season, we will be watching for forward-looking commentary and guidance from companies that might be most impacted by rising input costs, and those with export markets that might be impacted by retaliatory tariffs. With a weaker U.S. economy and margin compression from higher costs to U.S. companies, we could see the S&P 500 EPS forecast moving down to the US$250-255 level, from our current US$265 estimate. Our S&P 500 target could be faced with a decline of ~9% to 5,800. We will have a better idea about the longevity of these tariffs over the next days and weeks, although given the U.S. administration's goals of generating extra government revenue and enticing companies to commit to multi-year projects to move manufacturing operations, the initial intent seems to be that these will be effectively permanent, but with room for negotiation as to the rates. We will similarly weigh adjustments to our TSX target as the longevity and breadth of tariffs become more certain, and as we consider the potential impact to the Canadian economy from a slowing U.S. economy, which could become clearer with the BoC's updated analysis in its April 16 report.

Chart 1 - Canada and U.S. Headline Inflation



Source: FactSet, Raymond James Ltd.; Data as of February 28, 2025. Not seasonally adjusted.

Chart 2 - S&P/TSX Composite and S&P 500 2025 Performance



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2025. Price return in local currency.

Executive Summary

The waves of tariffs that had previously hit Canada, Mexico, and China through 1Q25 turned into a tsunami with the April 2 Liberation Day announcement, with baseline 10% tariffs on 180 countries to take effect April 5, and targeted rates of up to 49% on ~60 specific countries to take effect April 9. Rates were much higher than expected. While we await retaliatory measures from other countries, Canada and Mexico were comparatively spared, with no new measures and a more permanent reprieve on USMCA-compliant goods. Canada still faces challenges from 10-25% tariffs on non-USMCA-compliant goods, sector-specific tariffs on automobiles and steel & aluminum, as well as from potentially subsequent waves of tariffs on pharmaceuticals and minerals. The door seems to be open for negotiations, and we expect that the USMCA renegotiation will be advanced from mid-2026 to provide a more stable and better defined playing field before year-end.

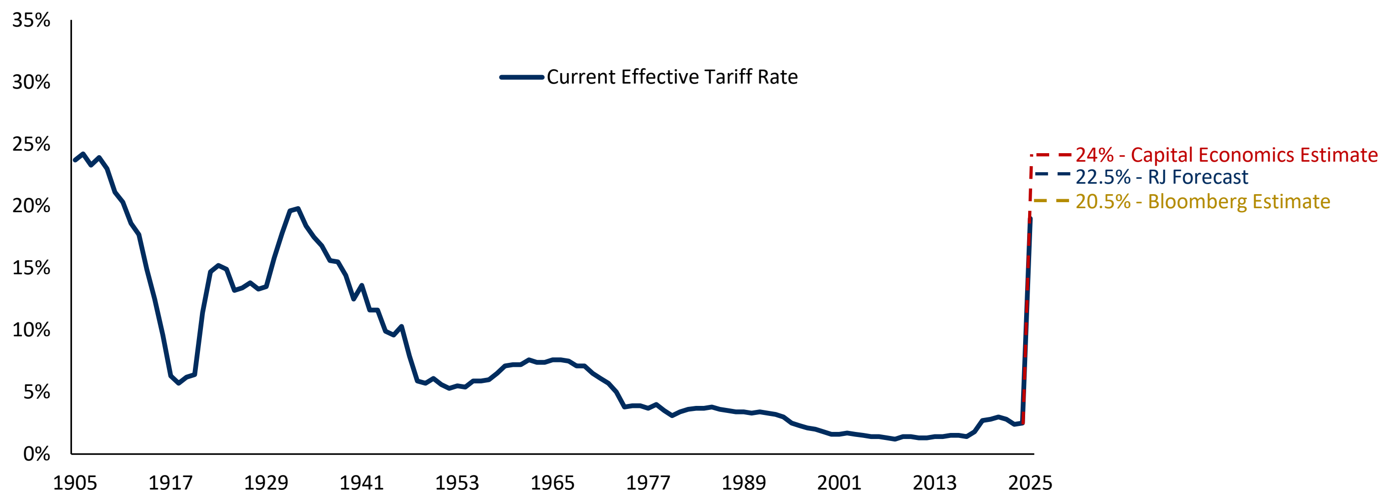
March Recap

March was mostly about the buildup to the “Liberation Day” package of reciprocal tariffs announced April 2. The tariff rates, were higher than essentially anyone expected, and impacted a greater number of countries than anticipated, including countries like the U.K. and Australia that the U.S. has trade surpluses with. Canada and Mexico, which had both already been hit hard by previous tariff waves, were exempt from these new reciprocal tariffs and even received some clarity in that products currently covered by the USMCA agreement would continue to be spared from previous tariffs. While just under 40% of Canadian exports to the U.S. are considered formally USMCA-compliant, it is believed that many exporters just never went through the process to get their products approved, instead just accepting the previously minimal rates or operating in a segment that was exempt from tariffs anyway. Now that those non-compliant products could be hit with 10-25% tariffs, we expect a rush to get these products certified, so that compliance rates will certainly rise, potentially to the 75-80% range. However, Canada still faces 25% tariffs on USMCA non-compliant products, as well as industry specific tariffs on automotive products, steel, and aluminum, plus could be caught up in subsequent waves, which are expected to include pharmaceuticals and minerals.

Economically, Canada’s GDP growth rate was a strong 0.4% in January, with heightened activity in the oil and gas, quarrying, and mining sectors. Goods production was also up 1.1% from December, potentially with orders from U.S. companies front-running possible tariffs and a GST/HST tax holiday that ran from mid-December through mid-February that likely helped to boost consumer spending over that period. Overall, 1Q25 is on-track for annualized growth of 1.8%. Due to the USMCA exemption, and likely more encompassing and advanced renegotiation, Canada could now actually end up in a comparatively better position than many other countries, however, with now potentially slower global and U.S. economic growth, Canada could still get caught in that headwind. While the U.S. economy exited 2024 well and was expected to only slow slightly into 2025, the new tariff package increases the likelihood of the U.S. falling into recession this year, although much will be determined over the coming days and weeks as the administration negotiates with various countries and as we get a better sense of how long these tariffs might be imposed. Given the administration’s intent to use tariff revenue to offset other spending or tax cuts, and in order to sustain pressure long enough to ensure that manufacturers indeed move manufacturing to the U.S., the potential exists for these to be in place longer than many may expect.

Equity markets have been jittery on the uncertainty around tariff threats since the beginning of the year, leading to a 4.3% decline in the S&P 500 by the end of the quarter and a year-to-date return of -7.9% as of April 3, following the April 2 tariff announcement. Canadian equity markets fared somewhat better, up 1.5% to the end of quarter, although they were almost equally impacted by the tariff announcement to sit at a return of -0.8% as at April 3. All figures are in total returns. Expect continued volatility as we watch for retaliatory tariffs, the potential escalation in tariff rates, and potential relief following negotiations.

Chart 3 - U.S. Effective Tariff Rate Estimated to Reach a 100-year High



Source: Tax Foundation, Bloomberg Economics, Raymond James Ltd.; Data as of April 3, 2025.

Table 1 - Summary of U.S. Tariff Announcements Affecting Canada as of April 3, 2025

Date	Targeted Countries	Targeted Products	Status	Tariff Rate	Affected Canada's Export to the U.S. (USD, Bln, 2023)
Mar 07, 2025	Canada, Mexico	Non-USMCA Compliant goods (excl. potash, Canadian energy)	Implemented	25%	Close to 80% of imports from Canada entered the U.S. free of duty in 2024, of which about half are USMCA compliant. We expect most of the other half, as well as most Canadian crude oil, will be registered as compliant too. *(Bloomberg Economics)*
Mar 07, 2025	Canada, Mexico	Non-USMCA Compliant goods (potash, Canadian energy)	Implemented	10%	
Mar 12, 2025	All	Steel & Aluminum	Implemented	25%	~21
Apr 03, 2025	All	Autos	Implemented	25%	~58
TBD	All	Pharma	Threatened	25%	~7
Nov 22, 2025	All	Copper	Threatened	Unspecified	~4
Nov 26, 2025	All	Timber and Lumber	Threatened	Unspecified	~12

Source: Raymond James Ltd.; Bloomberg Economics.

Tariffs

As with every month so far this year, and likely many months to follow, we provide an update on the rapidly evolving environment of tariffs, counter-tariffs, and a new tactic in secondary tariffs, where the U.S. is trying to exert pressure on Venezuela, on electoral reforms and migrant returns, by imposing a tariff on any country that purchases crude oil from that country. The secondary tariff play has now also been floated as a tool to be used against Russian oil should Putin fail to advance ceasefire talks in Ukraine.

Unfortunately, a lot can change over a relatively short period of time and threats seem to evolve sometimes hourly. Nevertheless, let's delve into what has actually changed or been implemented in the last month, and put such threats and concerns into context.

There's a couple of overarching points that we should start off with. First, tariffs do not have to be enacted to cause changes to behaviours and business decision-making. As we can already see, at least anecdotally, businesses may be deferring investment commitments, scaling back operations, withdrawing forward guidance, stocking up on inventory, and considering moving manufacturing operations. Second, even dramatic tariffs will not decimate the Canadian economy, although they could be devastating to segments of the Canadian economy. Certain industries will experience more pain than others, and certain individuals' lives will be significantly impacted, but the Canadian economy will certainly not grind to a halt.

Tariffs can cause disruption to both the country being targeted and the country imposing the tariff. As a case in point, consider cross-border dependency in sectors such as the automotive industry, with highly integrated supply chains that do not react well to disruptions, as we may well remember from the pandemic. These then impact product availability, prices, and customer satisfaction. Unfortunately, Canada certainly stands to suffer more than the U.S. through this process, but the faster and more aggressive the tariffs are enacted, the quicker the pressure will build to establish a resolution.

Worst-case scenarios from a Bank of Canada (BoC) analysis put economic contraction and recession on the table, although a lot depends on

specific details and responses, and time frames may be relatively short given that the renegotiation of the USMCA terms are slated for mid-2026, and are likely to be moved sooner. Renegotiation could provide rule stabilization, and allow everyone to get back to business.

Tariffs — the story so far

President Trump has lobbed multiple tariff threats on multiple fronts, with sometimes conflicting messages as to the justification and timing of each wave. Here, we track the most significant tariffs, specifically the ones that would be expected to impact Canada most directly. It is also worth noting that so far, Trump has indicated that various tariffs will be cumulative, such that a 25% country-specific tariff combined with a 25% industry-specific tariff would generally imply an overall tariff impact of 50% on that specific sector, from that specific country. Again, the auto industry remains a key focus, as Canada-specific tariffs, plus steel and aluminum tariffs, plus automotive product tariffs, have the potential to dramatically increase the cost of vehicles in the U.S. This would then affect their demand from consumers, followed by reductions in sales volumes and lower orders for parts or finished products from Canada. While these tariffs are intended to entice manufacturers to purchase from U.S. suppliers, the reality is that after years of investment and partnership in integrated cross-border supply chains, finding qualified substitutes in a few weeks or months is just not realistic.

April 2 — Liberation Day tariffs

On April 2, President Trump announced sweeping tariffs on most countries. While termed "reciprocal" tariffs based on each country's tariff and non-tariff trade barriers to U.S. products, the rates displayed seem to be more based on U.S. trade deficits with each country in 2024, divided by the value of U.S. imports from that country. This rate was then halved to derive the tariff rate that the U.S. would apply against each country, subject to a minimum rate of 10%, but escalating to as high as 49%. These rates stack on existing rates however, such that the 34% "reciprocal" rate on China is stacked onto the 20% rate that was previously announced under the 'fentanyl' tariffs, for a combined rate of 54%.

The messaging is that this is the ceiling rate that the U.S. will charge, with room to negotiate the rates down. Any kind of retaliation however could still lead to escalation of these rates before being negotiated lower.

Fentanyl-driven tariffs

After lots of threats both before and after the election, the first real salvo was fired by President Trump on February 1 with an executive order for 25% tariffs on all goods entering the U.S. from Canada and Mexico (with a reduced 10% tariff on Canadian energy — oil, natural gas, electricity, coal, and uranium), and a 10% tariff on Chinese goods. This round of tariffs was primarily justified as addressing the issue of the influx of fentanyl into the United States.

After various delays and temporary exemptions, a 25% tariff was imposed on USMCA non-compliant goods, except for energy and potash, which have a 10% tariff. This took effect starting March 7. Canada responded with retaliatory tariffs on $155 billion of targeted U.S. goods.

Steel & aluminum tariffs

On March 12, a 25% tariff was placed on steel & aluminum products imported into the U.S., including from Canada. This tariff is on raw metals and finished goods made of steel and aluminum, which is quite an exhaustive list of products. There's an exemption for the finished product if the steel or aluminum is "melted and poured" in the U.S. This tariff threat seems similar to a June 2018 action where President Trump enacted a 25% tariff on steel and 10% tariff on aluminum in his first term. That round resulted in Canadian exports to the U.S. falling approximately 20% over the following year before rebounding after the USMCA ratification in May 2019. Canada is the most exposed economy to this specific tariff as it represents approximately 20% of such U.S. imports and 90% of Canada's exports of these goods, equivalent to approximately US$24.4 billion, or roughly 1% of Canada's GDP. China, by comparison, is already subject to a 47.5% tariff on steel and 32.5% tariff on aluminum and so any incremental tariff there would be of negligible impact, although that country still sold US$15.4 billion of steel and aluminum into the U.S. last year.

In retaliation for the steel and aluminum tariffs, Canada has imposed 25% tariffs on $29.8 billion of U.S. goods such as tools, computer, servers, display monitors, and sports equipment.

Lumber

Canada and the U.S. have had a long-standing dispute over softwood lumber. The U.S. objects to the fees schedule that the Canadian government charges the forestry industry, deeming them too low and effectively sees them as the government providing unfair subsidies. The U.S. raised the duty on softwood lumber from 8% to around 14.5% last year. An investigation into global lumber imports and derivative products was launched on March 1, and is to be completed within 270 days. After that, a final determination will be made on tariffs (likely 25%). The expectation is for an increase in anti-dumping duties on Canadian softwood lumber to 20.07%, in combination with countervailing duties of 6.74%.

Tariffs on automobiles

As of April 3, the U.S. will place 25% tariffs on finished vehicles, while key parts, such as engines, engine parts, transmissions and powertrain parts, and electrical components, with be tariffed starting a month later. For now, tariffs on vehicles from Canada and Mexico, covered by the USMCA, will only apply to the non-US made content, and the tariff will not apply to parts imported from Canada and Mexico that are USMCA-compliant. These are likely to be short-term exemptions until the U.S. establishes a process to apply the tariff to all the value of the non-US content.

Upcoming sector threats

In addition to the April 2 reciprocal tariffs, President Trump has threatened that more sector-specific tariffs would be coming for semiconductors, pharmaceuticals, and Canadian dairy. An investigation into copper imports is also in process, with the expectation that tariffs similar to the ones of steel and aluminum could be in the works.

Possible GDP impacts in Canada

As long as the threat of tariffs hang over Canada, there will be uncertainty that drives new manufacturing capacity to be added in the U.S., rather than in Canada, and it could lead to investments being deferred in both countries until the future playing field is better defined. The Bank of Canada (BoC) provided a report, as part of the January Monetary Policy Report, on the potential impacts of U.S. tariffs. Its benchmark calibration puts the first-year impact of 25% across-the-board tariffs at a 2.4 percentage point negative adjustment, meaning that a previous forecast of 1.8% growth for the year — along the lines of what we were trending to — becomes a contraction of 0.6% (Chart 5). In the second year, the benchmark calibration is 1.5% lower, and by the third year, GDP growth would be expected to return to normal. Different scenarios put the cumulative impact at 3.4% to 4.2% negative adjustment to GDP from the baseline forecast, over the time period. For context, GDP contracted 5.0% in 2020 due to the pandemic, by 2.9% in 2009 during the Great Financial Crisis, and by 2.1% in 1991 during a global economic slowdown and oil price shock from the Gulf War. The BoC's April Monetary Policy report on April 16 is expected to provide additional clarity on economic impacts of tariffs and retaliatory tariffs.

We can explore how this could play out in Canada. While the impact of tariffs on growth rates is temporary, they cause a permanent reduction in GDP, reflecting a long-term decline in Canadian productivity due to the distortion created. On the other hand, as the cost increases from Canada's retaliatory tariffs are gradually passed on to consumer prices over three years, CPI inflation faces sustained upward pressure. In the first year, considerable excess supply and declining commodity prices largely offset the direct impact of tariffs, but as excess supply is gradually absorbed in subsequent years, inflation begins to rise. The BoC is currently expecting the growth rate of potential output to slow from 2.5% in 2024 to roughly 1.5% in 2025 and 2026, resulting in excess supply being absorbed. Overall, different scenarios could lead to a cumulative impact of 0.7% to 2.7% increase in annual average CPI inflation. Overall, if we get a sustained 25% country-wide tariff that lasts more than six months, we could see Canada subject to at least a mild recession.

However, with the current USMCA exceptions and a likely USMCA renegotiation this year, we could see some confidence and certainty for businesses to recalibrate their operations and expectations. Some businesses and industries will likely have less of an advantage at the end of this process, but that is all the more reason for investors to remain diversified and invested within their risk tolerance.

A reminder on how tariffs work

Contrary to how tariffs are being portrayed by certain commentators, tariffs are not paid by the exporting nation (Canada). Tariffs are collected by the importing nation's government (in this case the U.S.) as a tax, although it is possible that the (U.S.) retailer, (U.S.) distributor, or (Canadian) manufacturer might decide to reduce their profits and absorb some of the impact, so as not to increase prices dramatically for the (U.S.) consumer. If these parties don't absorb some of this impact, then the end (U.S.) consumer sees the entirety of the price increase and then has the option to accept the higher price, not purchase the product at all, or seek a lower cost alternative. Domestic (U.S.) manufacturers therefore are deemed to have an advantage if this now makes their product cheaper by comparison, although it can also entice a domestic manufacturer to increase their price to this new higher level, therefore driving up the price for all of the products. In the case of products that are imported because of a specialized nature, such as a medical device or aircraft part, importers might be facing a lack of alternatives, or long processes to get an alternative manufacturer certified or ramped-up for volumes required, and therefore they have to continue purchasing the tariffed piece for the immediate future and perhaps are willing to accept the heightened price in the short-term if the tariffs are expected to be over a limited time frame. As such, this may not affect the volume or value of goods being exported (from Canada), but ultimately still raise their costs and likely lead to price increases for (U.S.) consumers in one way or another.

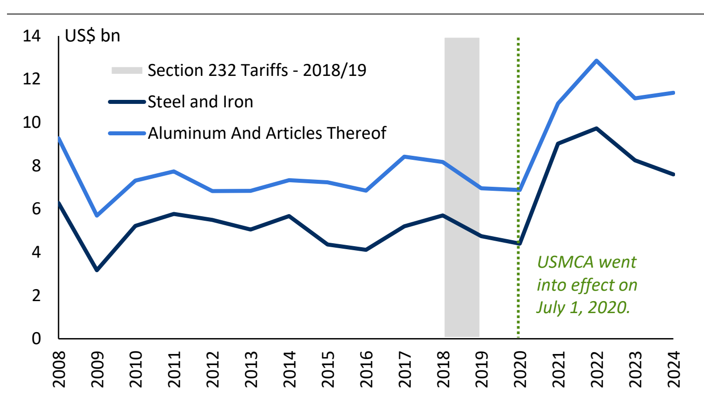
One of the factors that somewhat offsets the impact of tariffs on the (U.S.) consumer, is that tariffs in this case would be likely to put upward pressure on the USD and downward pressure on the CAD. Therefore, if the Canadian exporter left its CAD price unchanged, the USD importer

could see some of the tariff burden alleviated by the increased purchasing power of the USD. Unfortunately, this has the opposite impact on a U.S. exporter as their product becomes more expensive in international markets because of the change in foreign exchange rate, plus the possibility of retaliatory tariffs. This ends up putting pressure on U.S. based manufacturers right as the U.S. is trying to advantage those same companies.

Will the USMCA renegotiation mark the end of this?

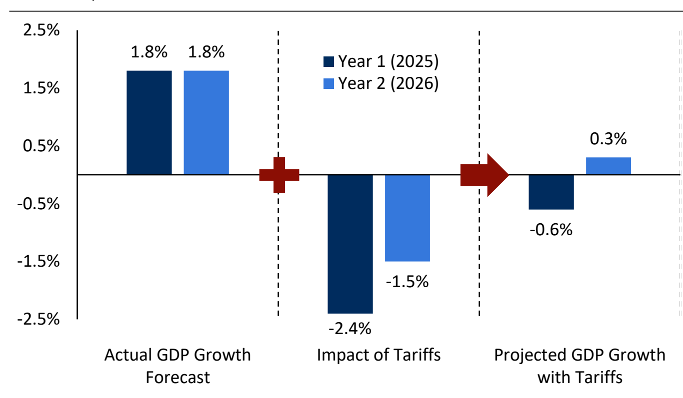
Just to recap here, the United States-Mexico-Canada (USMCA) trade agreement was actually President Trump's deal from his first administration, replacing the North American Free Trade Agreement (NAFTA). USMCA was structured with a review and renegotiation planned for mid-2026. While there can be no assurances that this agreement will survive, it is hard to claim that it is currently being respected under the current barrage of tariff threats, anyway. A complete collapse of USMCA would have further negative consequences for all (3) countries, in part due to the impact on cross-border services. As an example, USMCA currently allows services to be sold in a jurisdiction without requiring a physical presence in that region. Our generally accepted expectation at this point is that the USMCA renegotiation will set a new playing field for trade between the U.S., Mexico, and Canada, and will likely bring a more wholesome treaty that will allow all parties to more forward with more certainty, although likely not without pain for some. We are also inclined to think that timing of these negotiations will be advanced, but that before and through these negotiations, tariff threats will be increasingly used to extract concessions on key areas, which we already expect to include defence spending and critical minerals.

Chart 4 - Canadian Steel and Aluminum Exports to the U.S.



Source: U.S. Census Bureau, Raymond James Ltd.; Data as of December 31, 2024.

Chart 5 - Impact of 25% Tariff Over an Extended Period (6+ months) on Canada



Source: Monetary Policy Report - January 2025, Bank of Canada.

Economics

Canada — Will tariffs overshadow the fundamental improvements from rate cuts?

We had seen plenty of hard data indicating that Canada's economy was improving into 2025, with GDP growth of 1.8% expected this year, up from 1.3% last year. Then, in February many investors were shaken as tariff threats, that had previously been seen considered mostly as negotiating tactics, became all too real. Within a day, the tariff implementation plan was already changing, with deferrals and exemptions, but businesses were faced with the reality that they would not be able to reasonably plan for the immediate future, given the shifting markets and environment. As we discussed in our previous report, not only can enacted tariffs have the potential to slow economic growth, but uncertainty can cause businesses to delay investment or expansion plans until the environment is more certain. This is exactly what we're seeing now.

On one hand, we had robust GDP growth in 4Q24, fueled by strong household consumption and fixed capital formation. Household net worth increased by 1.4% from 3Q24, thanks to the appreciation of financial assets. Additionally, we saw the first price uptick in CPI baskets like clothing and footwear, and housing operations in 13 and 17 months, respectively. These indicators all pointed to ongoing fundamental improvements resulting from the rate cuts. On the other hand, more time-sensitive data such as retail sales, home sales, and consumer/business sentiment surveys indicate that households are holding off on big-ticket purchases and planning to spend more cautiously. Businesses have also scaled back their hiring and new investment plans, mainly due to trade tensions. The uncertainty has put the 1.8% growth expectation into doubt.

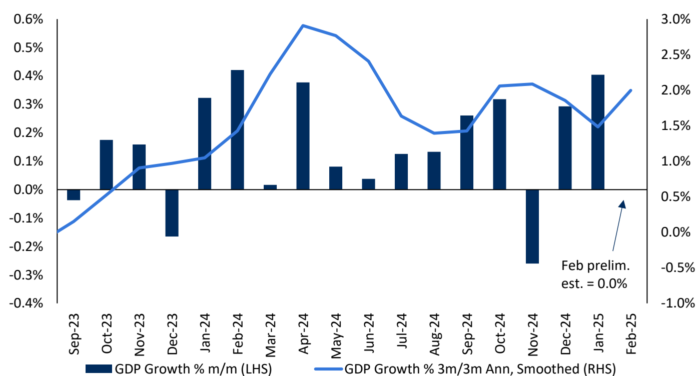
For the rest of the year, the question remains whether tariffs and further tariff uncertainty will overshadow the fundamental improvements brought about by rate cuts. With no additional tariffs imposed on Canada from the April 2 announcement, Canada's recession risk is lower, placing it in a relatively good position compared to other developed countries. Nonetheless, given the high degree of integration between Canada's economy and the U.S. and global economies, the outlook remains gloomy.

GDP growth so far in 1Q25

Canada's GDP growth rate was a strong 0.4% in January, with heightened activity in the oil and gas, quarrying, and mining sectors. Goods production was also up 1.1% from December, potentially with orders from U.S. companies front-running possible tariffs. After stocking up on pre-tariff inventories, we could see weakness as tariffs actually come into effect. A GST/HST tax holiday that ran from mid-December through mid-February also likely helped to boost consumer spending over that period. After that solid start to the year, preliminary forecasts are for weakening in February, with no improvement over January, due at least in part to harsh weather (Chart 6). Overall, 1Q25 is on-track for annualised growth of 1.8%, although the tariff uncertainty is likely to lead to further slowing throughout the year, with a mild recession through the later half of 2025 a possibility. We look forward to reading the April Monetary Report from the BoC, with its updated analysis. Recall that in the January outlook, the BoC forecasted GDP growth to be 1.8% in both 2025 and 2026 (down from 2.1% and 2.3%, respectively, in the October outlook), but up from 1.3% in 2024. The improvement over 2024 can be partially attributed to the easing of monetary policy (lower interest rates) by the BoC that stimulated both consumer spending and business investment, and increasing export capacity for oil and gas. The reduced outlook however, versus the October report, can be partially attributed to government policies implemented to slow population growth, which leads to both fewer consumers and fewer workers. As described earlier, across the board tariffs of 25% (excl. Energy at 10%) for an extended period of time would certainly impact Canadian GDP. The BoC had estimated the first year impact at 2.4%, meaning that a 1.8% growth rate before tariffs could become a 0.6% contraction, likely leading to a recession. With the USMCA exemptions currently in place, Canada could fare relatively better, although a more overriding concern has surfaced of the April 2 tariff package slowing the U.S. and global economy more significantly, thus creating an overall headwind to Canadian growth.

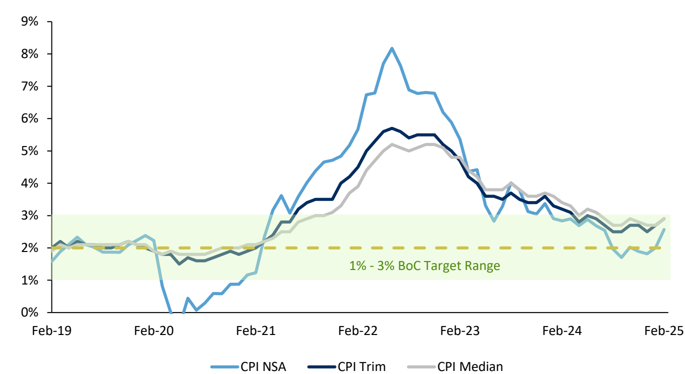
One positive side effect of the tariff threats has been the impetus for provinces to reconsider interprovincial trade barriers. A 2019 working paper from the IMF concluded that fully liberalizing internal trade could boost GDP per capita by 4%.

Chart 6 - January's Solid GDP Growth Faces a Softer Outlook for February



Source: Statistics Canada, Raymond James Ltd.; Data as of January 31, 2024.

Chart 7 - Core Inflation Approaches the Upper Bound of the BoC's Comfort Zone



Source: Statistics Canada, Raymond James Ltd.; Data as of February 28, 2025.

Household Net Worth (4Q24)

Households continued to see an increase in wealth in the fourth quarter of 2024, with net worth climbing by 1.4% q/q to $17.5 trillion. This marks the fifth consecutive quarter of growth. The value of financial assets increased by 2% q/q, primarily driven by strong equity market performance in Canada and the U.S., while the non-financial assets also saw a 0.6% q/q increase in value. On the other side, household financial liabilities, mainly consisting of mortgage and non-mortgage debt, rose by 1.2% q/q.

As the BoC initiated its rate easing cycle, overall interest payments followed a downward trend. As a result, the household debt service ratio improved from 15.11% at the end of 2023 to 14.35% at the end of 2024, marking the largest annual decline since 2020. The positive momentum observed in 4Q24 data suggests that overall household wealth was improving before market uncertainty surrounding tariffs likely dampened this momentum in 1Q25. However, the sooner certainty is restored, the better it will be for households to regain and sustain the growth seen at the end of 2024.

Consumption declines in January, after December surge

Retail sales in Canada edged lower by 0.6% to $69.4 billion in January, falling short of Statistics Canada's advanced estimate of a 0.4% decline. In

terms of volume, retail sales experienced a significant decline of 1.1% compared to December. The largest decrease was observed at motor vehicle and parts dealers, with sales dropping by 2.6%, particularly due to lower sales at new car dealers. This is unsurprising, as consumers typically delay big-ticket purchases during periods of economic uncertainty. Core retail sales, which exclude gasoline stations, fuel vendors, and motor vehicle and parts dealers, fell by 0.2% in January, driven primarily by a 2.5% drop in food and beverage stores.

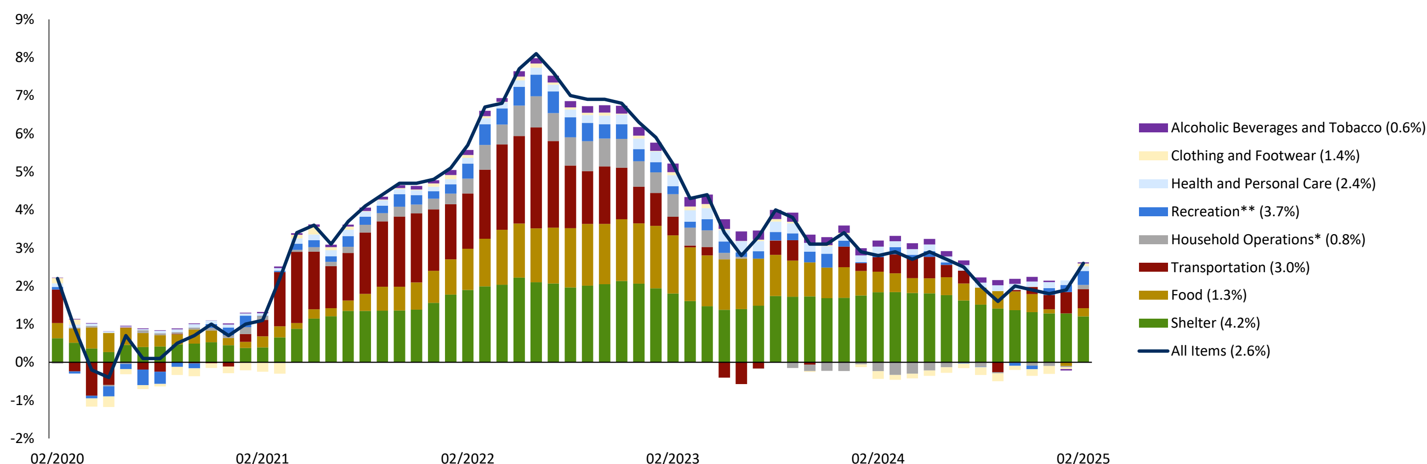
This decline follows December's revised gain of 2.6%, which was boosted by holiday spending and the government's tax break. Looking ahead, Statistics Canada's advanced estimate for February suggests another decline in sales by 0.4%, primarily due to consumers exercising caution amid tariff uncertainty.

Unexpected inflation surge complicates Bank of Canada's task

Canada's headline inflation jumped to 2.6% in February, up from 1.9% in January. Broader price increases were observed in February, with categories like clothing and footwear, and housing operations experiencing their first price inflation in 13 and 17 months, respectively. This broader price increase reflects the continued boost in demand due to lower interest rates, and some telecom service providers raising the prices of their plans. However, the main contributor to the significant rise in headline inflation was the 18.8% year-over-year increase in travel tour prices, driven by heightened demand in the United States during the President's Day weekend. Despite this, President Trump's rhetoric about Canada has led to a decline in Canadian border crossings to the U.S., suggesting that the high inflation in travel tours may not persist. In the coming months, we expect food, alcoholic beverages, and tobacco prices to continue rising as the GST/HST break ended on February 15. Additionally, Prime Minister Mark Carney's decision to scrap the consumer-facing carbon tax as of April should help lower overall inflation. Lastly, downside risks to Canada's economy from U.S. tariffs will continue to impact business and consumer behaviour, causing disruptions and noise in inflation measures. The BoC is expecting March CPI to be about 2.5%.

The BoC's preferred core inflation measures, CPI-trim and CPI-median, showed consistent gains due to broader price increases, both reaching 2.9% in February, up from 2.7% in January (Chart 7). These core measures are nearing the upper bound of the BoC's comfort zone of 1-3%. The large upside surprise in February's data may reduce the likelihood of the BoC cutting interest rates again in its April meeting. We have one more CPI print release before the next BoC meeting and policy rate announcement on April 16, which will provide more clues on the inflation front.

Chart 8 - Major Components' Contributions to Canada CPI (Stacked Bars) and Latest Monthly CPI (Bracket Beside the Legend)



Source: Statistics Canada, Raymond James Ltd.; Data as of February 28, 2025. *Household operations, furnishing and equipment; **Recreation, education and reading.

BoC continued cutting interest rates at March 12 meeting amid tariff concerns

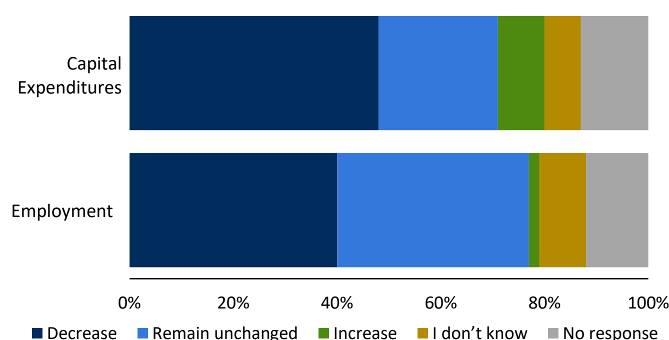
On March 12, the BoC lowered its overnight rate by 25 bps to 2.75%, marking the seventh consecutive rate cut since June 2024. Despite entering 2025 with strong economic indicators such as near-target inflation and robust GDP growth, the BoC cited escalating trade tensions and tariffs from the U.S. as key factors likely to dampen economic activity and elevate inflationary pressures.

Recent surveys' data released by the BoC indicates a decline in consumer confidence and a reduction in business spending, as companies delay or cancel their investment plans amid tariff concerns (Chart 9). It will be closely monitored how these soft indicators translate into hard data leading up to the next announcement on April 16 and the release of the updated Monetary Policy Report. Regarding inflation, after five consecutive months of staying below the 2% target, the large upside surprise in February may have made the BoC's job more challenging. Moving forward, the BoC will

need to balance various factors, such as tariff impacts (disruptions to Canada's improving economic outlook, potential higher prices for imported goods), policy changes (removal of the consumer-facing carbon tax), and more.

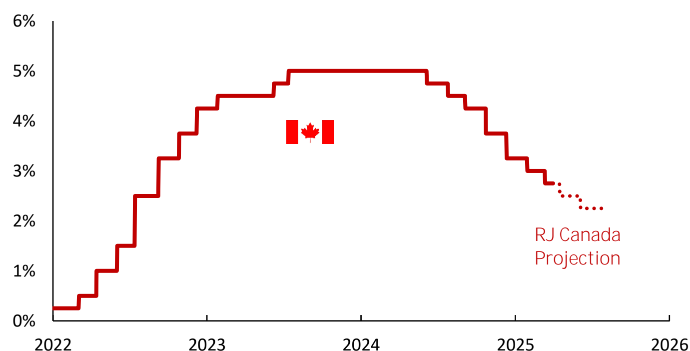
According to the BoC's "Summary of Governing Council deliberations", released March 26, the strong economic growth through the end of 2024 and start of 2025 was attributed in part to faster-than-usual transmission of the benefits of the rate cutting that started in June 2024. Although it is too early to see a significant impact on economic activity from trade tensions, consumer and business confidence surveys are suggesting further weakening, although 1Q25 data could look strong due to the front-running of tariffs, the surge in exports, and therefore economic activity, would likely weaken, starting in 2Q25. Had it not been for the tariff-induced uncertainty and economic pressure, the BoC would probably have held its policy rate at 3.00% at the March 12 meeting, but instead opted for a 25 bp cut to help Canadians manage the uncertainty caused by tariffs, while inflation looks well contained. We have been expecting cuts to continue down to 2.25% (Chart 10), although if we see economic impacts coming from tariffs that are expected to remain longer-term, we could be looking for the BoC to lower further into the 1.75-2.00% range.

Chart 9 - Anticipated Changes in Capital Expenditures and Employment (Share of Respondents)



Source: Bank of Canada, Business Leaders' Pulse, February 2025.

Chart 10 - Interest Rates to Continue Declining



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2025.

Muted Job Creation and Labour Force

The results from the March Labour Force Survey indicate signs of economic uncertainty reflected in the hard data. Canada's unemployment rate rose to 6.7% in March, with employment declining by 33k, marking the first decrease since January 2022. This decline followed minimal change in February and three consecutive months of growth in November, December, and January, totaling 211k. The largest employment decreases were seen in wholesale and retail trade (-29k), and information, culture and recreation (-20k). Most of the job losses came from a drop in full-time work (-62k). Conversely, employment gains were observed in services such as personal and repair services (+12k), and utilities (+4.2k). Overall, average hourly wages among employees were up 3.6% y/y in March, following growth of 3.8% in February (not seasonally adjusted).

Due to tightened immigration policies, the labour force growth remained modest but the significant decline in employment widened the gap again between the cumulative increase in the labour force and employment (Chart 11).

Statistics Canada also noted that the long-term unemployment has increased, with the proportion of individuals searching for work for 27 weeks or more rising to 23.7% in March 2025, up from 18.3% in March 2024. The weakening labour market may show that the turmoil around tariff uncertainty is starting to play out. Even under our base case assumption that each round of threats can be managed with negotiations or that enacted tariffs will be relatively short-lived, it will, unfortunately, cause layoffs and deferrals in adding workers, and we are not expecting any significant improvements in this metric over the short term.

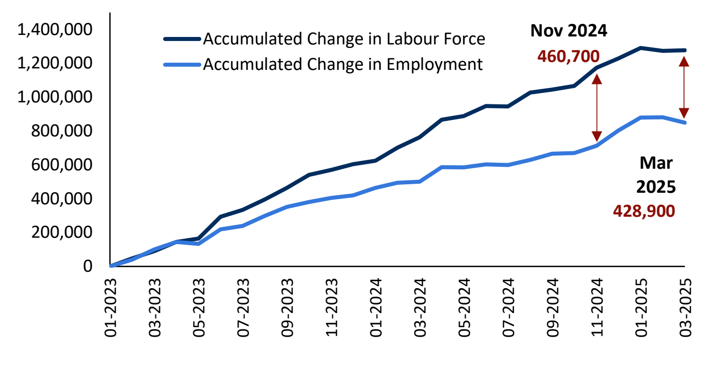
Housing

Canadian home sales experienced a sharp decline in February, as buyers typically hesitate to make large purchases and prefer to wait for clearer conditions during periods of uncertainty. Existing home sales fell by 9.8% m/m, reaching the lowest level since November 2023 and marking the steepest monthly drop since May 2022. This softer demand is reflected in home prices, which fell by 0.8% m/m in February. New listings also dropped by 12.7% m/m, effectively reversing the surge seen in January. With both sales and new listings declining by relatively similar magnitudes, the national sales-to-new listings ratio increased slightly to 49.9% in February from 48.3% in January (Chart 12).

Since the BoC began its rate-lowering cycle, home sales and prices had shown improvement. However, while further rate cuts aim to support

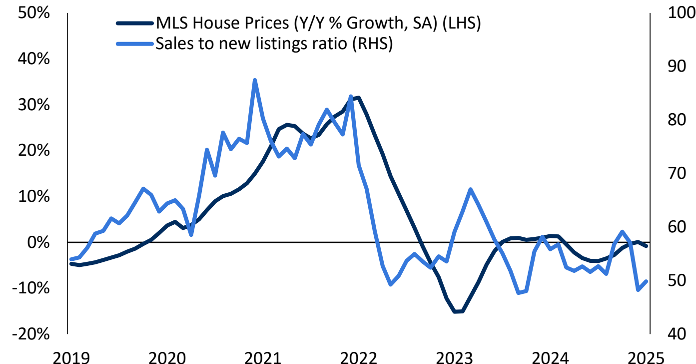
demand, the persistent tariff uncertainty continues to undermine buyers' confidence.

Chart 11 - Decline in Employment Widens the Gap Again



Source: Statistics Canada, Raymond James Ltd.; Data as of March 31, 2025.

Chart 12 - National Sales-to-New Listings Ratio Ticked Up in February



Source: CREA, Raymond James Ltd.; Data as of February 28, 2025

The U.S. — Economics concerns transition from "soft" to "hard" data

Although the U.S. began 2025 with a robust economy, GDP growth projections for the first quarter have been significantly downgraded due to uncertainties surrounding tariffs. Consumer spending has shown signs of weakness and caution, initially reflected in sentiment surveys and later in real-time trackers and monthly hard data. The labour market has further cooled. Although the unemployment rate and jobless claims remained steady, there was a surge in job cut announcements in February. Additionally, the wealth effect among U.S. households, particularly the top 20%, should not be overlooked. A reversal of the spending trends from 2023/24 is possible as households may reduce their spending plans in response to their shrinking portfolios.

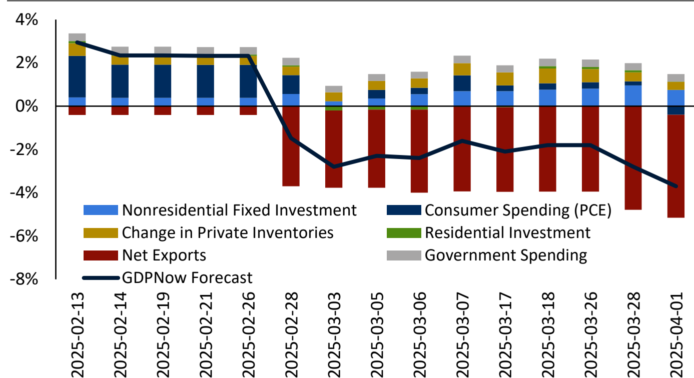
Given the current macroeconomic backdrop, the effective tariff rate is unlikely to remain at this level for too long. Depending on the elasticity of goods, foreign exporters may absorb some of the tariff, but it's the domestic importers who actually pay the tariff, and eventually, a portion will be passed onto end consumers. Domestic producers may also adjust prices to increase their profit margins, leading to goods inflation. However, with a cooler labour market, wage growth is unlikely to keep pace with price inflation, which will hit consumer spending very hard, unlike in 2021-2022. The demand will be too weak for higher inflation to persist. Trade deficits may indeed narrow, but not in the way the Trump administration prefers. Even if President Trump uses tariff revenue for tax cuts, it won't be timely or efficient enough, regardless of the amount.

This fear is also reflected in U.S. treasury yield curve movements. Yields for maturities greater than one year have dropped significantly amid tariff announcements, indicating market anticipation of a sharp economic slowdown in the intermediate term. By then, inflation will no longer be the top concern, but economic growth will be. Additionally, the U.S. could default on its debt as soon as May. Democrats and Republicans opposing President Trump may use the debt ceiling renewal as leverage to force a scale back in the announced tariffs in exchange for a bilateral agreement on raising the debt ceiling.

Downward revision of economic growth projections amid tariff uncertainties

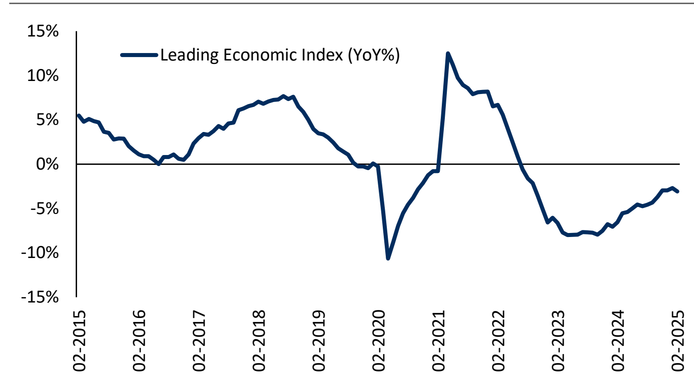
As we wait for the official 1Q25 real GDP growth figures, we look at various estimates and leading indicators that reflect the ongoing changes in the macroeconomic environment to set a baseline. The Atlanta Fed's GDPNow tracker, which provides a running estimate of real U.S. GDP growth based on current economic data, has sharply declined from 2.3% to -1.5% on February 28 for 1Q25, and has fluctuated between -1.6% and -2.8% throughout March due to a surge in imports (Chart 13). Businesses have responded to tariff threats by front-loading imports and increasing inventory levels, which will introduce noise into the official results when announced. This should be seen as an exceptional or one-time impact. The latest reading has already shown an early warning sign, with the real-time consumer spending component dipping into negative territory. Our chief economist from RJF has also revised down his real GDP growth forecast due to recent changes in the administration's tariff policies. The quarter-over-quarter real GDP growth estimate for 1Q25 is now 0.8%, with year-over-year growth at 2.3% in the quarter. The economic growth forecast for calendar year 2025 has been lowered from 2.0% to 1.8%. Further adjustments will depend on how negotiations evolve over the coming days and weeks, but the U.S. economy has otherwise shown resilience, with a tight labour market, solid consumer spending, and A.I. driven spending and development helping industrial activity. Anticipated deregulation and tax cuts later this year could provide more of a tailwind to the economy and markets.

Chart 13 - Atlanta Fed GDPNow Tracker for 2025: Q1, Contributions to Growth



Source: Federal Reserve Bank of Atlanta; Data as of April 1, 2025.

Chart 14 - Leading Economic Index (LEI) Continues to Decline

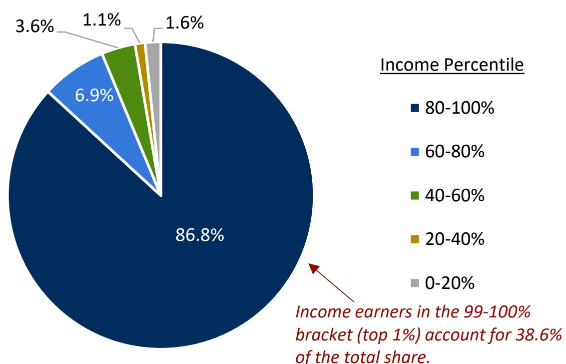


Source: The Conference Board, Raymond James Ltd.; Data as of February 28, 2025.

The Leading Economic Index (LEI) developed by The Conference Board, which provides an early indication of significant turning points in the business cycle and near-term economic direction, fell by 0.3% in February 2025 following a 0.2% decline in January (Chart 14). The components that weighed most heavily on the index in February were consumer expectations of future business conditions and manufacturing new orders.

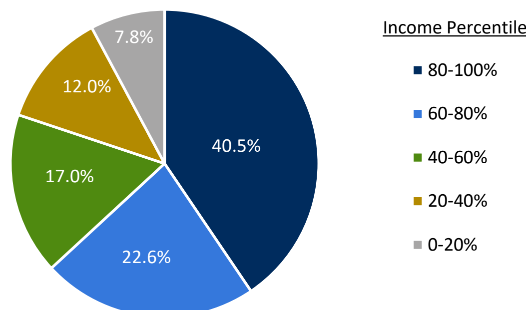
The key question now is whether these notable declines in consumer and business sentiment (soft data) will translate into the real economic growth (hard data), beyond just a one-time impact. One aspect to consider is the wealth effect in economics, which suggests that when consumers feel wealthier due to rising asset values (such as investments or homes), they tend to spend more, thereby boosting economic activity, and vice versa. In the U.S., income earners in the 80-100% bracket (top 20%) hold over 85% of corporate equities and mutual fund shares and account for over 40% of consumer discretionary spending (Chart 15-16). This wealth distribution has helped the U.S. economy, which is roughly two-thirds driven by consumer spending, remain robust over the past two years despite elevated inflation, thanks to stellar stock market performance. However, we might soon see a reversal if tariff shocks significantly dampen market performance, consequently adding more downward pressure on real GDP growth.

Chart 15 - Share of Corporate Equities and Mutual Funds Ownership by Income Percentile



Source: Survey of Consumer Finances and Financial Accounts of the United States, Raymond James Ltd.; Data as of 4Q24.

Chart 16 - Share of Total Consumer Discretionary Spending by Income Percentile



Source: U.S. Bureau of Labor Statistics, Raymond James Ltd.; For the year 2023.

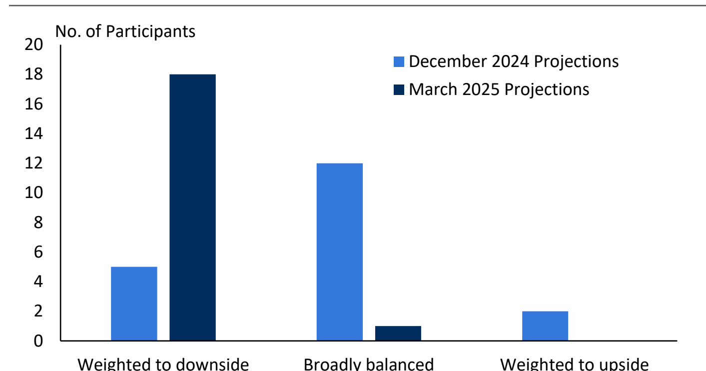
The Fed maintains a cautious wait-and-see approach

At its March 19 meeting, the Fed kept the federal funds target range at 4.25% to 4.5% and announced a slowdown in the balance sheet runoff process. These decisions were expected, given ongoing uncertainties around tariffs and other policies. The relatively strong U.S. economy, supported by solid economic data, allows the Fed to take a patient approach. Slowing the balance sheet reduction will also return some liquidity to the financial markets and ease upward pressure on yields.

Comparing the March Summary of Economic Projections (SEP) with the December one, the Fed's expectation of two rate cuts in 2025 remains unchanged. However, there are some notable updates: (1) the real GDP growth projection has been revised down from 2.1% to 1.7% for 2025

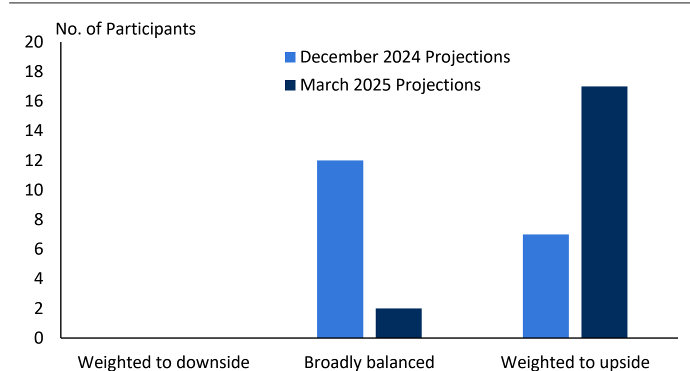
and from 2.0% to 1.8% for 2026; (2) PCE inflation has been revised up from 2.5% to 2.7% for 2025 and from 2.1% to 2.2% for 2026. Similarly, core PCE projection for 2025 has been revised up from 2.5% to 2.8%; (3) FOMC participants see higher uncertainty in their projections for GDP and unemployment, with greater downside risks for GDP and higher upside risks for unemployment (Chart 17-18). These developments make sense given the high macroeconomic uncertainty, and reflect that Trump's policies will be mildly stagflationary. We still see an overall desire to move interest rates lower, particularly given the larger-than-anticipated Liberal Day tariff package. The market is now anticipating around four rate cuts this year. Concerns about a significant slowdown in GDP growth have overshadowed worries about a resurgence in inflation.

Chart 17 - FOMC Participants' Assessment of Risks to GDP Growth



Source: Federal Reserve, Summary of Economic Projections, Raymond James Ltd.; March 2025.

Chart 18 - FOMC Participants' Assessment of Risks to the Unemployment Rate



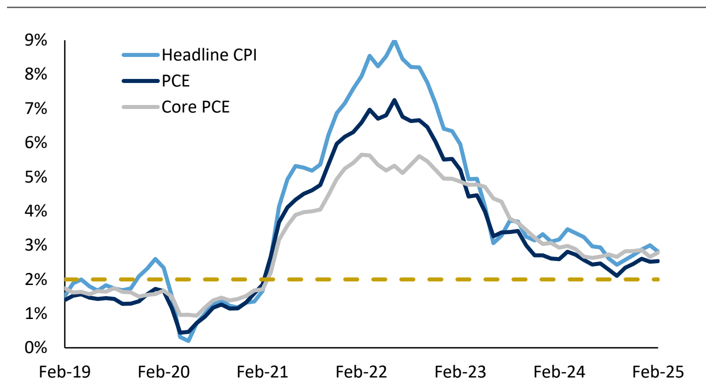
Source: Federal Reserve, Summary of Economic Projections, Raymond James Ltd.; March 2025.

Inflation heats up while consumer spending cools down

The consumer price index (CPI) rose by 2.8% year-over-year in February, which is slightly softer than the 3.0% increase seen in January. Similarly, the core CPI's year-over-year change eased from 3.3% in January to 3.1% in February. However, the underlying components paint a more concerning picture, as the elements that contribute to the Fed's preferred inflation metric, the PCE (Personal Consumption Expenditures) price index, showed a more noticeable increase.

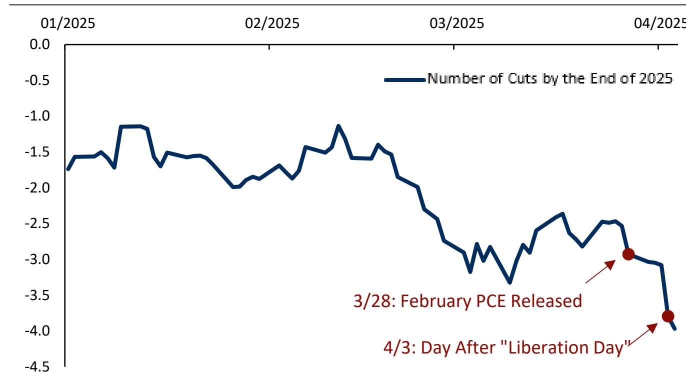
In February, the core PCE price index rose 0.4% month-over-month, marking the sharpest monthly gain since January 2024, and increased 2.8% from a year ago (Chart 19). Both measures are slightly above economists' forecasts. The gain was broad-based, with core services and core goods (durable and nondurable) all up approximately 0.4% month-over-month. While the core PCE price is growing at a stubborn pace, nominal personal consumption only rebounded by a disappointing 0.4% month-over-month following a 0.4% decline in January. Since the start of 2025, consumer spending has lagged behind the growth in disposable personal income (DPI), leading to a personal saving rate of 4.6% in February, the highest since June 2024. This reflects that U.S. consumers remain cautious in spending amid growing fears of a potential trade war. As mentioned above, the Fed has also factored in the impact of policy uncertainties and underscored the risks in their March SEP, where they revised up their projection on inflation and down on GDP growth. This may have helped stabilize market expectations on the number of Fed rate cuts this year at three when the higher-than-expected increase in the PCE price was released on March 28 (Chart 20).

Chart 19 - US Inflation (Y/Y Percentage Change)



Source: Factset, Raymond James Ltd.; Data as of February 28, 2025.

Chart 20 - Market Anticipated Number of Rate Cuts by the End of 2025



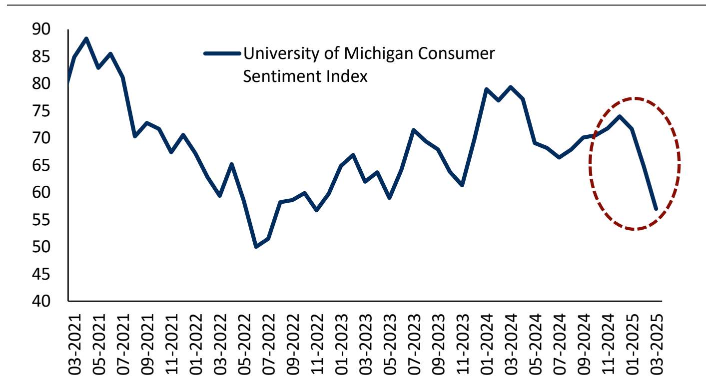
Source: Bloomberg, Raymond James Ltd.; Data as of April 4, 2025.

Consumer confidence continues to weaken

In line with the weaker-than-expected rebound in nominal personal consumption, the University of Michigan Consumer Sentiment Index continued its downward trend for the third consecutive month, falling to 57.0 in March. This represents a decline of 11.9% m/m and 28.2% y/y (Chart 21). Consumers have notably expressed deteriorating expectations regarding their personal finances, business conditions, unemployment, and inflation. Specifically, two-thirds of consumers anticipate a rise in unemployment over the next year, the highest reading since the year 2009. This is significant because strong labour markets and strengthening incomes have been key drivers of robust consumer spending in recent years. Additionally, year-ahead inflation expectations rose sharply from 4.3% last month to 5.0% this month, while long-term inflation expectations climbed from 3.5% in February to 4.1% in March. This marks the third consecutive month of significant increases of 0.5 percentage points or more (on an m/m basis).

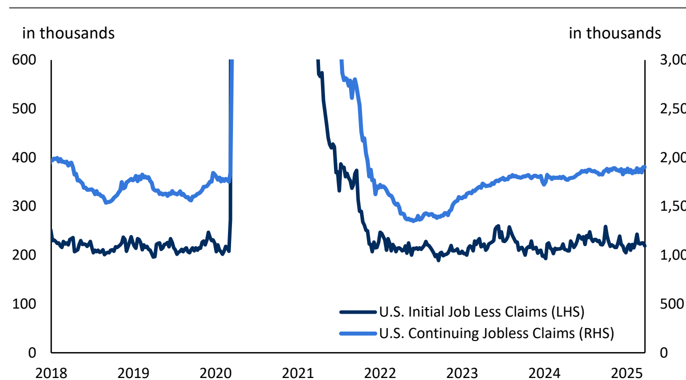
Consumer concerns may be exaggerated due to fears of tariffs; however, lower confidence in the labour market, coupled with rising inflation expectations, could potentially constrain consumer spending. According to the Morning Consult consumer survey conducted by Visa, the extent of discretionary spending cuts varies by income level. The survey results indicate that middle-income consumers (US$50,000–90,000) are more likely to reduce spending across a wide range of categories, including travel, apparel, restaurants, and home furnishings. In contrast, high-income earners (>US$100,000) are less likely to curtail travel spending but tend to cut back on apparel and restaurant expenditures. Although the categories of spending cuts differ among various income groups, it is apparent that overall consumer discretionary spending may weaken due to diminishing consumer confidence.

Chart 21 - Consumer Sentiment Declines for the Third Straight Month



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2025.

Chart 22 - U.S. Jobless Claims Levels Remain Steady So Far



Source: FRED; Raymond James Ltd.; Data as of March 21, 2025.

Labour market remains healthy for now

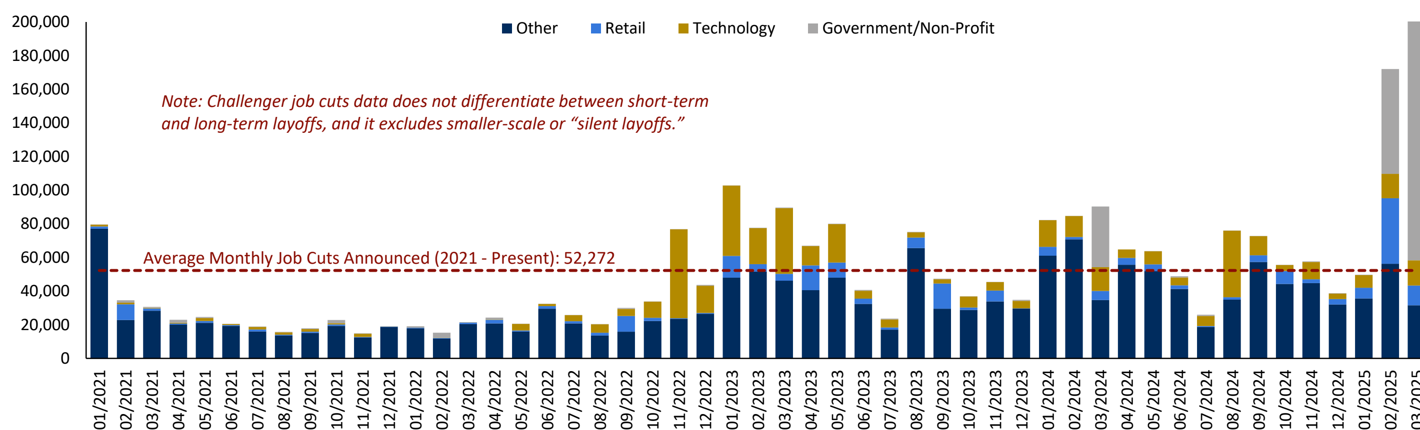
Total nonfarm payroll employment rose by 228,000 in March, higher than the average monthly gain of ~168k over the prior 12 months. The private sector led the employment gains, contributing 209,000 new jobs. Employment trended up in health care and social services, transportation and

warehousing, leisure and hospitality, and retail trade. While the federal government saw a continued decline in employment, state and local government gains resulted in an overall increase of 19,000 jobs in the government sector. The unemployment rate changed a little, from 4.1% in February, to 4.2% in March, which confirms that the U.S. labour market remains relatively healthy for now. The Job Openings and Labor Turnover Summary (JOLTS) also shows little change in the number and rate of job openings, hires, and separations in February compared to previous months.

However, we might find some insights into the potential impact of tariff uncertainties and DOGE's federal government restructuring from The Challenger Report, which tracks and categorizes layoff announcements in both private and public sectors based on mass layoff data from state labour departments. This report often captures the latest changes ahead of initial jobless claims, as mass layoffs require 60 days' notice. However, Challenger job cuts data does not differentiate between short-term and long-term layoffs, making the trend spikier, and it excludes smaller-scale or "silent layoffs," which can lead to an underestimation of the total number. Despite this, the surge in February and March, driven by job cuts in the federal government and retail sectors, suggests we may see an increase in initial jobless claims in the coming months. If these layoffs are spread out over several months and there are no more significant surges in job cut announcements in the future, the impact on initial jobless claims and the unemployment rate would be more limited. For context, the number of continuing jobless claims on March 28 was 1,903,000, while the potential federal government layoffs so far total 279,157, accounting for around 15% of continuing jobless claims (Chart 23). However, due to the larger-than-expected Liberation Day tariff package and retaliations from the trading partner, we anticipate more job cuts. Additionally, the downstream impacts from DOGE should not be overlooked.

Looking ahead, the impact of tighter immigration policies has yet to unfold, which may partially offset some of the layoffs. Nevertheless, we still see more downside risk in the coming months.

Chart 23 - Job Cuts Announced by Industry



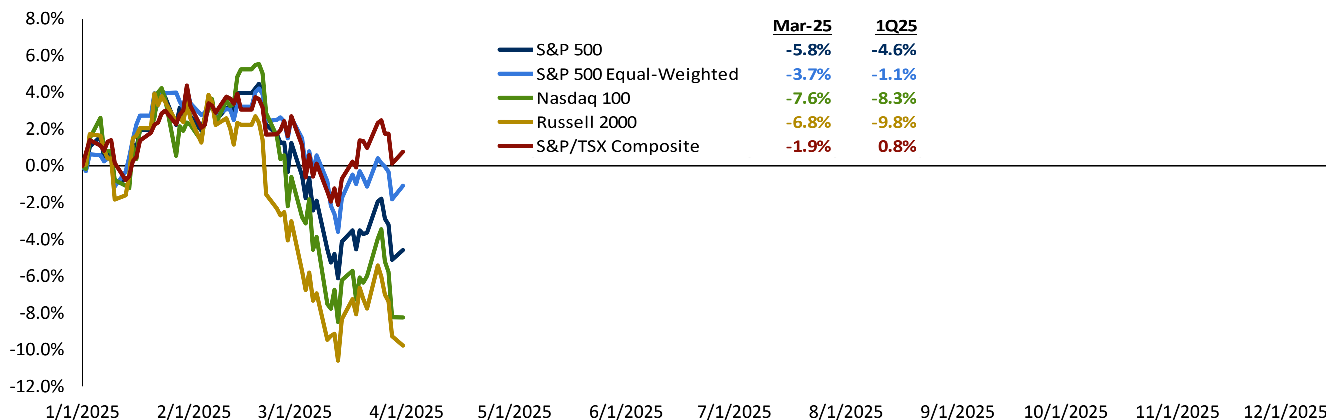
Source: Challenger, Gray & Christmas, Inc., Raymond James Ltd.; Data as of March 31, 2025.

Financial Markets

In March, the TSX Composite, Canada's main stock market index, saw a -1.9% price return and a -1.5% total return. Meanwhile, the S&P 500, the U.S. large-cap benchmark, experienced a steeper decline with a -5.8% price return and a -5.6% total return, all in local currency. Within the TSX Composite, sectors less affected by tariff threats generally performed better, except for the Info Tech sector, which struggled due to cooling enthusiasm around A.I. and the recent underperformance of its U.S. counterpart. For the S&P 500, the "Magnificent Seven" continued to drag down performance, with their sectors remaining the worst performers. On March 13, the S&P 500 fell into correction territory amid ongoing tariff threats, dropping 10% from its previous high on February 19. Among other major equity indices, the S&P 500 equal-weighted index fared better than the capital-weighted index. Meanwhile, the U.S. small-cap index, Russell 2000, continued to struggle due to negative sentiment surrounding the U.S. economy (Chart 24).

In the first quarter of 2025, the TSX Composite posted a 0.8% price return and a 1.5% total return, outperforming the S&P 500, which declined by 4.6% in price and by 4.3% in total return, all in local currency. The forward-looking price-to-earnings (P/E) multiple of the S&P 500 significantly contracted from 22.0x at the beginning of the year to 20.2x on March 31, while the multiple for the TSX Composite remained steady.

Chart 24 - Selected Indices Price Returns



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2025. Price return in local currency.

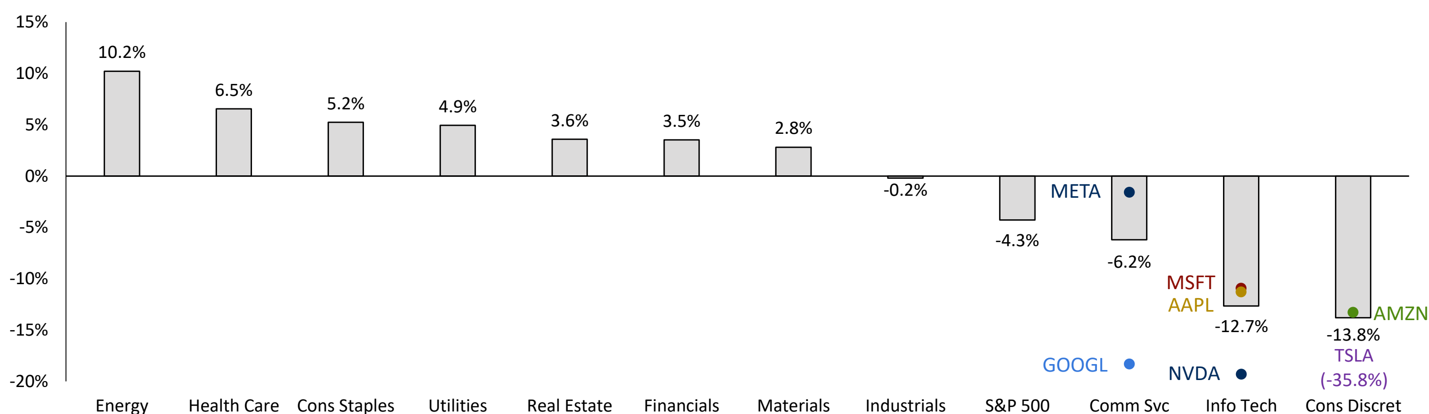
U.S. Equity Markets

It is undoubtedly a macro-driven market so far in 2025. Tariff uncertainty, growth scares, and disappointing leading indicators for the U.S. economy have dampened investor sentiment since late January. Bearish readings from the AAII U.S. Investor Sentiment survey have surged above 50, the highest level since the second half of 2022. It's unusual to see U.S. equity performance diverge (moving in a different direction, not just underperforming) from other major equity markets, especially in the past decade.

We attribute this situation to three main factors. First, the market had to reset its expectations for the U.S. economy and market, as the anticipated corporate tax cuts and deregulation promised during the election have not yet rolled out. Instead, they were hit by tariffs right off the bat, which essentially acted as a tax hike. Second, sentiment elsewhere has improved due to positive news around the world, such as the "U-turn" in fiscal policy in developed European countries and technological breakthroughs in China, causing the "U.S. exceptionalism" story to fade away. Third, the cooling enthusiasm around A.I. has led to sharp contractions in the forward-looking P/E multiples of the "Magnificent Seven." Their significant revenue from outside the U.S. has also made them vulnerable, as other countries could use them as leverage in trade negotiations with Trump. As a tech-heavy index, the S&P 500's performance has taken a hit (Chart 25).

In 1Q25, the Energy sector and traditionally defensive sectors outperformed as the market shifted. The recent gains in the Energy sector were primarily driven by investors seeking a natural hedge against tariff-driven inflation, and further supported by the oil price rally following threats of secondary tariffs on imports from countries buying Russian oil and tightened sanctions on Iran's oil exports. Looking ahead, we anticipate that any upside risk to oil prices will primarily stem from supply-side factors, such as tightened conditions due to sanctions or rising geopolitical tensions, while demand, aside from speculators, remains relatively muted.

Chart 25 - S&P 500 Sector and "Magnificant Seven" Year-to-Date Total Returns



Source: FactSet, Raymond James Ltd.; Data as of March 31, 2025.

Canadian Equity Markets

Despite the tariff disruptions, the TSX Composite Index managed to deliver a positive return in 1Q25, largely due to its heavy exposure to commodities, especially gold. Without the Materials sector, the TSX Composite's price return would have been negative. Additionally, the maximum drawdown for the TSX Composite in 1Q25 is -6.2%, which is better than the S&P 500's -10.1%.

Looking ahead, Canada's exclusion from the additional reciprocal tariffs on “Liberation Day” may alleviate concerns about the economy tipping into a recession and slightly improve the outlook for some TSX cyclical sectors, such as Real Estate and Financials. However, the outlook for Industrials and Consumer Discretionary remains gloomy due to the auto tariffs and potential auto parts tariffs.

Top 3 Sectors (1Q25):

- **Materials:** Given that about half of this sector's exposure is in gold, we consider it one of the best-insulated sectors from tariff threats and potential retaliation. In a way, it almost acts as a hedge against tariff policies, which often introduce significant market uncertainties. Therefore, we favour materials in the short term. Recently, traditional factors like the U.S. dollar and real yields haven't been as influential on gold's performance. Instead, gold prices are being driven by tariff uncertainties and central bank purchases. We believe these non-traditional factors will continue to support gold prices in the near term until the market eventually adapts to tariff dynamics. While central bank purchases might persist, high prices could make them more cautious. Therefore, in the medium to long term, we expect gold prices to revert to being influenced by traditional factors.
- **Utilities**: Several factors contributed to utilities being the top-performing TSX Composite sector in 1Q25. First, most companies in this sector are service providers, making them less affected by tariffs and the ongoing tariff threats, which primarily target goods. Market reactions on February 3 and March 4 have also indicated that utilities are more insulated from tariffs than most other sectors. Additionally, as a traditionally defensive sector, utilities benefit from a potential shift in economic narrative—from an economy turning the corner (favouring cyclical sectors) to one potentially facing recession due to tariff wars (favouring defensive sectors), which was the case in 1Q25. Furthermore, as the policy rate easing cycle continues, the dividend yields of utility stocks become gradually more attractive compared to government bond yields.
- **Energy:** The energy sector’s performance was quite muted from mid-January to early March. The recent rebound was primarily driven by investors seeking a natural hedge against tariff-driven inflation, and further supported by the oil price rally following Trump's threats of secondary tariffs on imports from countries buying Russian oil and tightened sanctions on Iran's oil exports. Looking ahead, we anticipate that any upside risk to oil prices will primarily stem from supply-side factors, such as tightened conditions due to sanctions or rising geopolitical tensions, while demand, aside from speculators, remains relatively muted.

Bottom 3 Sectors (1Q25):

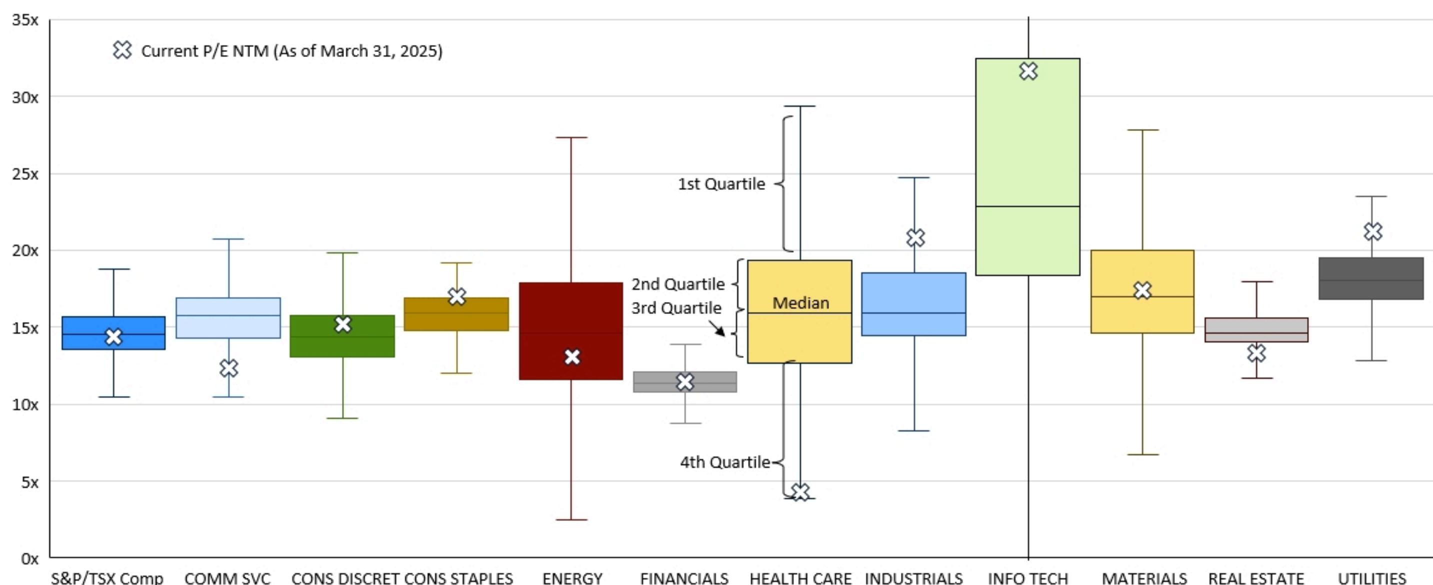
- **Information Technology:** Info tech has been very volatile so far this year. Although TSX Composite Info Tech companies are more insulated from tariff threats due to their service-oriented nature, the recent cooling enthusiasm around A.I. has significantly dampened their performance. Additionally, the negative economic sentiment stemming from the potential trade war has led capital to flow into more defensive sectors. Despite this, the TSX Composite Info Tech has outperformed its S&P 500 counterpart year-to-date. While we expect info tech stocks to face pressure in the near term, we don't believe the A.I. rally is over yet and anticipate this sector may regain lost ground once market attention shifts away from tariffs.
- **Industrials:** This sector was significantly impacted by ongoing tariff threats from the U.S in 1Q25. The highest risks were observed in industries such as intermodal, equipment supplies and distribution, automotive, and manufacturing. However, the front-loading of orders in 1Q25 is expected to boost immediate sales and earnings. Looking ahead, automotive tariffs will be particularly disruptive, especially with the potential inclusion of auto parts. On the other hand, exposure to the general waste collection industry and service-oriented companies may provide some support to this sector's performance.
- **Real Estate:** Since the start of the year, this sector's performance has remained flat. Slower population growth is anticipated to be a macroeconomic headwind, and the potential for tariffs between the U.S. and Canada has dampened the sector's outlook. In 1Q25, a major concern was the rise in building costs if Canada imposes retaliatory tariffs on U.S. imports, such as appliances or plumbing fixtures. However, the exclusion of Canada from the reciprocal tariff may alleviate some concerns about Canada's economy. As a cyclical sector, we expect its performance to gradually improve as the rate easing cycle progresses without additional major tariff threats.

Table 2 - S&P/TSX Composite Sector Performance and Valuations (Ranked by 1Q25 Total Return)

Sector Name	Sector Weight	YTD Total Return	1Q25	1M Total Return	Current P/E NTM	Historical P/E NTM
Materials	13.6%	20.3%	20.3%	7.2%	17.5	17.0
Utilities	3.9%	4.9%	4.9%	1.8%	21.7	18.0
Energy	17.2%	2.7%	2.7%	4.2%	13.8	14.6
Communication Services	2.4%	2.2%	2.2%	-1.5%	12.4	15.7
S&P/TSX Composite	--	1.5%	1.5%	-1.5%	14.8	14.5
Consumer Discretionary	3.2%	-0.2%	-0.2%	-2.4%	15.4	14.4
Consumer Staples	3.9%	-0.5%	-0.5%	2.6%	17.2	16.0
Financials	32.1%	-1.2%	-1.2%	-3.6%	11.3	11.4
Real Estate	1.9%	-1.6%	-1.6%	-1.4%	13.6	14.6
Industrials	12.2%	-2.0%	-2.0%	-4.6%	20.9	15.9
Information Technology	9.3%	-7.5%	-7.5%	-12.7%	32.0	22.9
Health Care	0.3%	-9.0%	-9.0%	-4.5%	4.5	15.9

Source: FactSet, Raymond James Ltd.; Data as of March 31, 2025. The S&P/TSX Healthcare sector has been excluded from the performance commentary due to its minimal representation in the S&P/TSX Composite Index.

Chart 26 - S&P/TSX Composite Sector Current vs. Historical P/E NTM



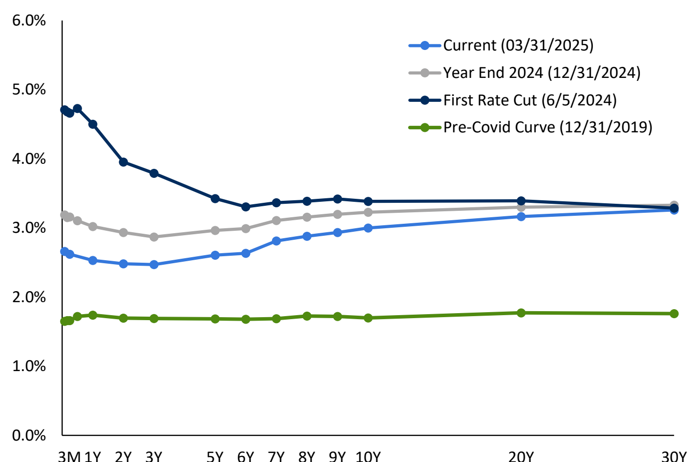
Source: FactSet, Raymond James Ltd.; Data as of March 31, 2025. Historical P/E: 1/1/2000 – 03/31/2025. Excluding outliers.

Fixed Income & Treasury Yields

Canada's government yield curve continued to normalize in March, with the front end of the curve dropping while the mid and long ends moved up. Given that Canada escaped Trump's reciprocal tariff announcements on April 2, the curve only shifted down modestly on April 3.

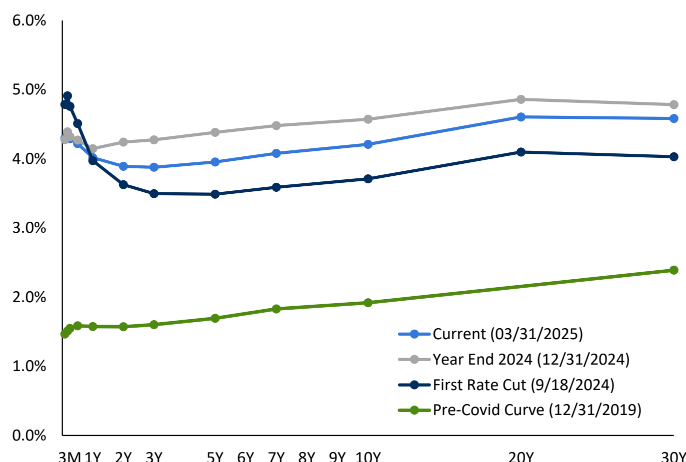
In contrast, the movements in the U.S. yield curve were more complex. Concerns about stubborn inflation have kept the front end of the U.S. curve largely unchanged year-to-date. Meanwhile, worries about potential tariff damage to the economy have led to more significant declines in yields for maturities greater than one year, although they remain relatively high. The April 2 reciprocal tariff announcements, marking the steepest American tariff plan in a century, heightened market recession fears, causing further declines in yields for maturities over one year. The ten-year yield dropped below 4% first time since last October.

Chart 27 - Canada Government Yield Curves



Source: Factset, Raymond James Ltd.; Data as of March 31, 2025.

Chart 28 - U.S. Treasury Yield Curves



Source: Factset, Raymond James Ltd.; Data as of March 31, 2025.

Table 3 - Global Equities Performance

Select Global Equity Indices	Mar (in LCL)	Mar (in USD)	Mar (in CAD)	1Q25 (in LCL)	1Q25 (in USD)	1Q25 (in CAD)	YTD (in LCL)	YTD (in USD)	YTD (in CAD)	Current PE NTM	Historical PE Median	Premium (RED) / Discount (GREEN)
Major Aggregates												
World (Global)*	-4.4	-4.4	-4.4	-1.5	-1.5	-1.4	-1.5	-1.5	-1.4	18.1	15.9	2.2
EAFE (DM ex U.S. & Canada)*	-0.2	-0.2	-0.3	8.0	8.0	8.0	8.0	8.0	8.0	14.1	13.6	0.6
EM (Emerging Markets)*	1.3	1.3	1.2	3.9	3.9	4.0	3.9	3.9	4.0	12.3	11.8	0.5
Selected Developed Markets												
Nikkei 225 (Japan)	-3.3	-2.6	-2.7	-9.9	-5.3	-5.3	-9.9	-5.3	-5.3	15.9	16.8	-0.9
Euro STOXX 50 (Europe)	-3.8	-0.2	-0.3	7.7	11.8	11.9	7.7	11.8	11.9	14.9	13.2	1.6
FTSE 100 (U.K.)	-2.0	-0.1	-0.2	6.1	8.2	8.3	6.1	8.2	8.3	12.0	12.3	-0.4
CAC 40 (France)	-3.9	-0.1	-0.2	5.8	10.4	10.4	5.8	10.4	10.4	15.1	13.4	1.7
DAX (Germany)	-1.7	2.1	2.0	11.3	15.8	15.9	11.3	15.8	15.9	14.5	12.6	1.9
Hang Seng (Hong Kong)	1.1	1.1	1.0	16.1	15.9	16.0	16.1	15.9	16.0	10.4	11.9	-1.5
Selected Emerging Markets												
CSI 300 (China)	-0.1	0.4	0.3	-1.0	-0.3	-0.3	-1.0	-0.3	-0.3	15.2	13.7	1.5
Nifty 50 (India)	6.3	8.8	8.7	-0.3	-0.1	-0.1	-0.3	-0.1	-0.1	19.7	18.7	1.0

Source: FactSet, Raymond James Ltd; Total returns, data as of March 31, 2025. LCL: listed in local currency. Historical P/E Median: 1/1/2000 – 3/31/2025. *Indices are represented by their corresponding iShares ETFs, serving as proxies.

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